Foundations of MARKETING
Seventh Edition

Chapter 7

Business Markets and Buying Behavior

Pride | Ferrell

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Learning Objectives

7-1 Distinguish among the various types of business markets.

7-2 Identify the major characteristics of business customers and transactions.

7-3 Identify the attributes of demand for business products.

7-4 Describe the buying center, stages of the business buying decision process, and the factors that affect this process.

7-5 Describe industrial classification system and how they can be used to identify and analyze business markets.

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Categories of Business Markets

- Producer
- Reseller
- Government
- Institutional

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Producer Markets

Producer markets – individuals and business organizations that purchase a specific kind of product to make profits for direct use in producing other products or use in general daily operations

- Buyers of raw materials
- Purchasers of semi-finished and finished items; used to produce other products
- Broad array of industries

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Discussion Point – Producer Markets

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Chemical plants are part of the producer market because they produce products that organizations purchase to use as ingredients in the production of other products.

What other industries are considered producer markets?

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Table 7.1 Number of Establishments in Industry Groups

Industry	Number of Establishments
Agriculture, forestry, fishing, and hunting	22,046
Mining, quarrying, and oil/gas extraction	28,909
Construction	652,902
Manufacturing	297,221
Transportation and warehousing	214,492
Utilities	17,833
Finance and insurance	474,510
Real estate	293,206

Source: "Statistics of U.S. Business (SUSB) Main," all industries, U.S. Bureau of the Census, http://www.census.gov/econ/susb/ (accessed February 3, 2015)

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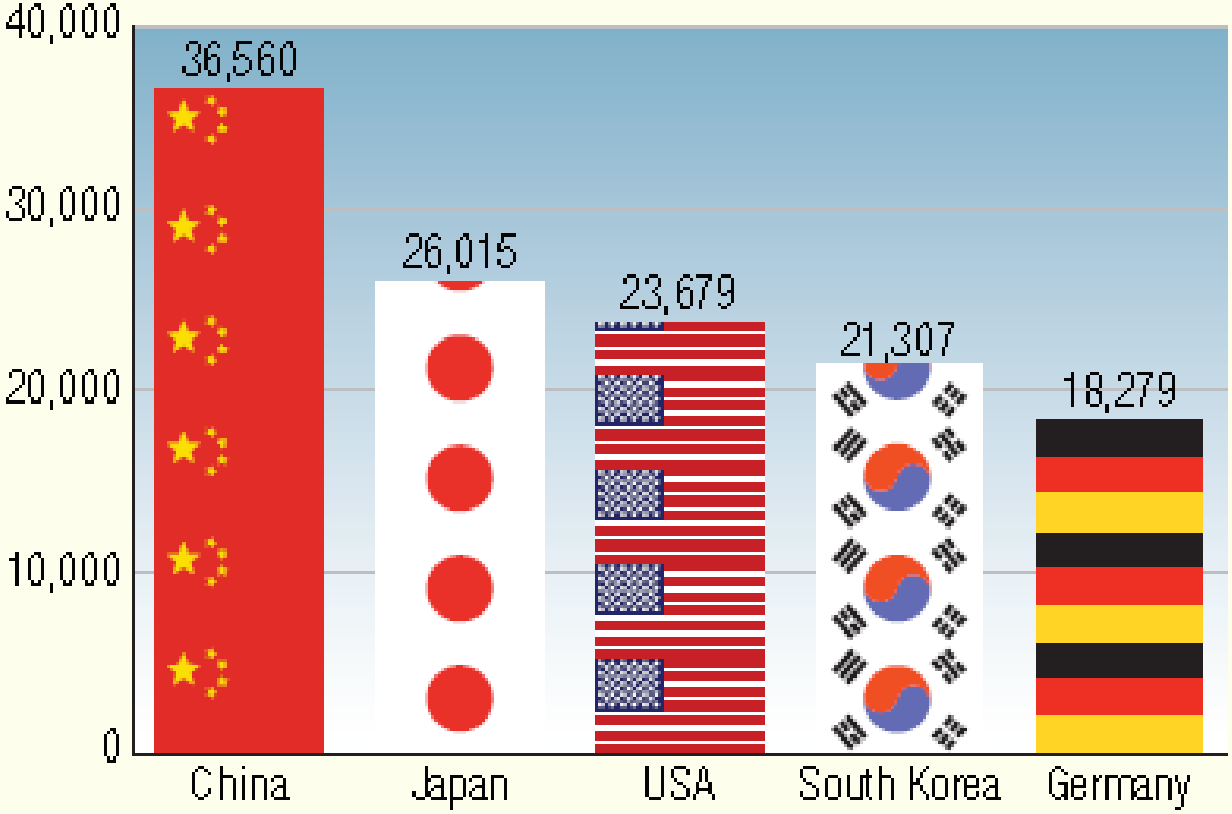
Who Buys the Most Industrial Robots?



SNAPSHOT

Source: International Federation of Robotics' Statistical Departments

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Reseller Markets

Reseller markets – intermediaries that buy finished products and resell them for a profit

- Intermediaries that buy finished goods and resell them for a profit
- No changes to the physical characteristics of the products
- All products sold to consumer markets are first sold to reseller markets.

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Reseller Markets: Wholesalers

- Wholesalers sell products to
  - Retailers and other wholesalers
  - Producers
  - Governments
  - Institutions
  - Retailers – resell products to final consumers
- Considerations in purchase decision making
  - Level of demand
  - Amount of space required to handle a product relative to its potential profit
  - Ease of placing orders

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Government Markets

Government markets - federal, state, county, and local governments

- Accounts for more than 40 percent of the total gross domestic product (GDP)
- Accountable to the public
- Result in complex buying procedures
- Governments advertise purchase needs by releasing bids or negotiated contracts.

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Institutional Markets

Institutional markets - organizations with charitable, educational, community, or other nonbusiness goals

- Different goals
- Fewer resources than other type of organizations
- Marketers may use special efforts to serve them.

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Discussion Point – Institutional Markets

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This stained glass window producer supplies products mainly to churches, which are a part of institutional markets.

What other types of organizations are considered institutional markets?

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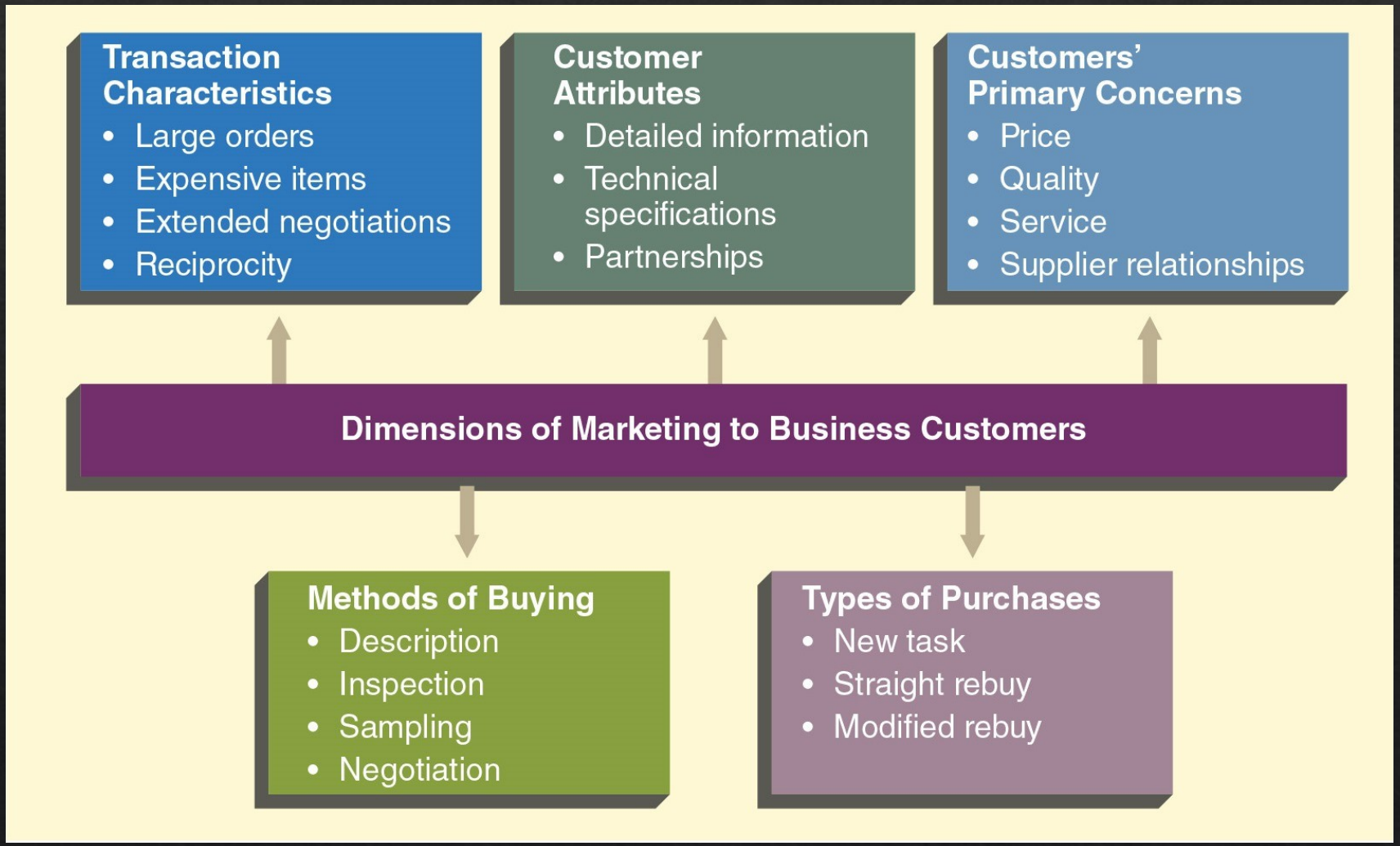
Figure 7.1 - Dimensions of Business Customers and Business Transactions



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Characteristics of Transactions with Business Customers

- Orders are large and expensive.
- Purchasing decisions are made by committee.
- Products may be custom built.
- **Reciprocity** - arrangement in which two organizations agree to buy from one another

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Attributes of Business Customers

- Better informed about the products they purchase
- Demand detailed information about
  - Product's functional features
  - Technical specifications
- Personal goals influence business buying behavior.
- Partnerships - Suppliers and their customers build and maintain mutually beneficial relationships.

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Concerns of Business Customer

- Price - Operating costs and costs of goods sold are influenced by price, which in turn affects selling price, profit margin, and the ability to compete.
- Product quality - Firms establish standards for products and buy them on the basis of specifications.
- Quality Service
  - Market information
  - Inventory maintenance
  - Technical product information
  - Delivery information and on-time delivery
  - Repair services and replacement parts
  - Access to communication channels

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Concerns of Business Customer (continued)

- Ethics and social responsibility
  - Sustainability
  - Green marketing strategies
  - Environmental performance
- Supplier relationships
  - Build trust with suppliers
  - Reduce search efforts

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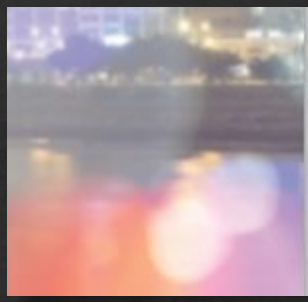
Discussion Point – Concerns of Business Customers



THIS IS A $12 MILLION SPRING.
EVEN SMALL PARTS CAN CAUSE BIG PROBLEMS
WHEN YOUR SUPPLY CHAIN IS INEFFICIENT.
Find out more ways logistics can save you time and money at ups.com/manufacturing
ups
WE ♥ LOGISTICS

Source: United Parcel Service of America, Inc.

Business customers are concerned about several major factors, including costs, acquiring the right product that works effectively, and customer service. Some of these concerns are expressed in this UPS as.

Why is building trust with a particular supplier so important to business customers?

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Methods of Business Buying

- Description – products standardized and graded according to characteristics
- Inspection – condition checked
- Sampling – used when the product is homogeneous
- Negotiation – used for very large or expensive purchases

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Types of Business Purchases

- **New-task purchase** – initial purchase of an item to be used to perform a new job or solve a new problem
- **Straight rebuy purchase** – purchase of the same products routinely under approximately the same terms of sale
- Modified rebuy purchase – new-task purchase changed on subsequent orders or when straight rebuy purchase are modified

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Discussion Point – Types of Business Purchases

GUARANTEED FUEL SAVINGS
rdx is North America's lowest cost provider of both No. 2 Diesel and No. 6 Fuel Oil.*
ASTM Certified Grades - per Load /Certificates of Analysis
rdx replaces both No. 2 Diesel and No. 6 Fuel Oils
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EXCLUSIVE SAVINGS ONLY FOR FORTUNE READERS
25% bonus savings in 2014 for the first 10 callers who choose RDX Fuel*
FREE Generator rental in 2014 for the first 10 callers who choose RDX Remote Power Programs*
rdx Technologies Corporation
800.284.3187
www.rdxh2o.com
rdx

Source: rdx Technologies Corporation

When purchasing fuel, most customers will engage in a straight rebuy.

How do straight rebuy purchases make it easier for the buyer?

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Demand for Business Products

- **Derived demand** – demand for business products that stems from demand for consumer products
- **Inelastic demand** – demand for a business product not significantly altered by price increase/decrease
- **Joint demand** – using two or more items in combination to produce a product
- Fluctuating demand – subject to fluctuations as business products are derived from consumer demand

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Discussion Point – Derived Demand

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Intel attempts to generate derived demand by promoting that its products are inside many brands of computers. Thus, the sale of computers generates demand for Intel products.

If the demand for housing is high, what other industries will see derived demand?

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Business Buying Decisions

- **Business buying behavior** – purchase behavior of producers, government units, institutions, and resellers
- **Buying center** - group of people within the organization who make business purchase decisions

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Roles within the Buying Center

- Users - organizational members who will actually use the product
- Influencers - technical personnel who help develop the product
- Buyers - select suppliers and negotiate terms of purchase
- Deciders - choose the products
- Gatekeepers - control the flow of information to and among the different roles in the buying center

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Buying Center

- Number and structure are affected by
  - Organization’s size and market position
  - Volume and types of products being purchased
  - Firm’s overall managerial philosophy
- Size is influenced by
  - Stage of the buying decision process
  - Type of purchase

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Problem Recognition

- One or more individuals recognize that a problem or need exists
- Arises under circumstances when
  - Machines malfunction
  - Firms modify an existing product
  - Firms introduce a new product

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Development of Product Specifications

- Buying center participants assess the problem or need and determine what is necessary to resolve or satisfy it.
- Users and influencers provide information and advice to develop product specifications.

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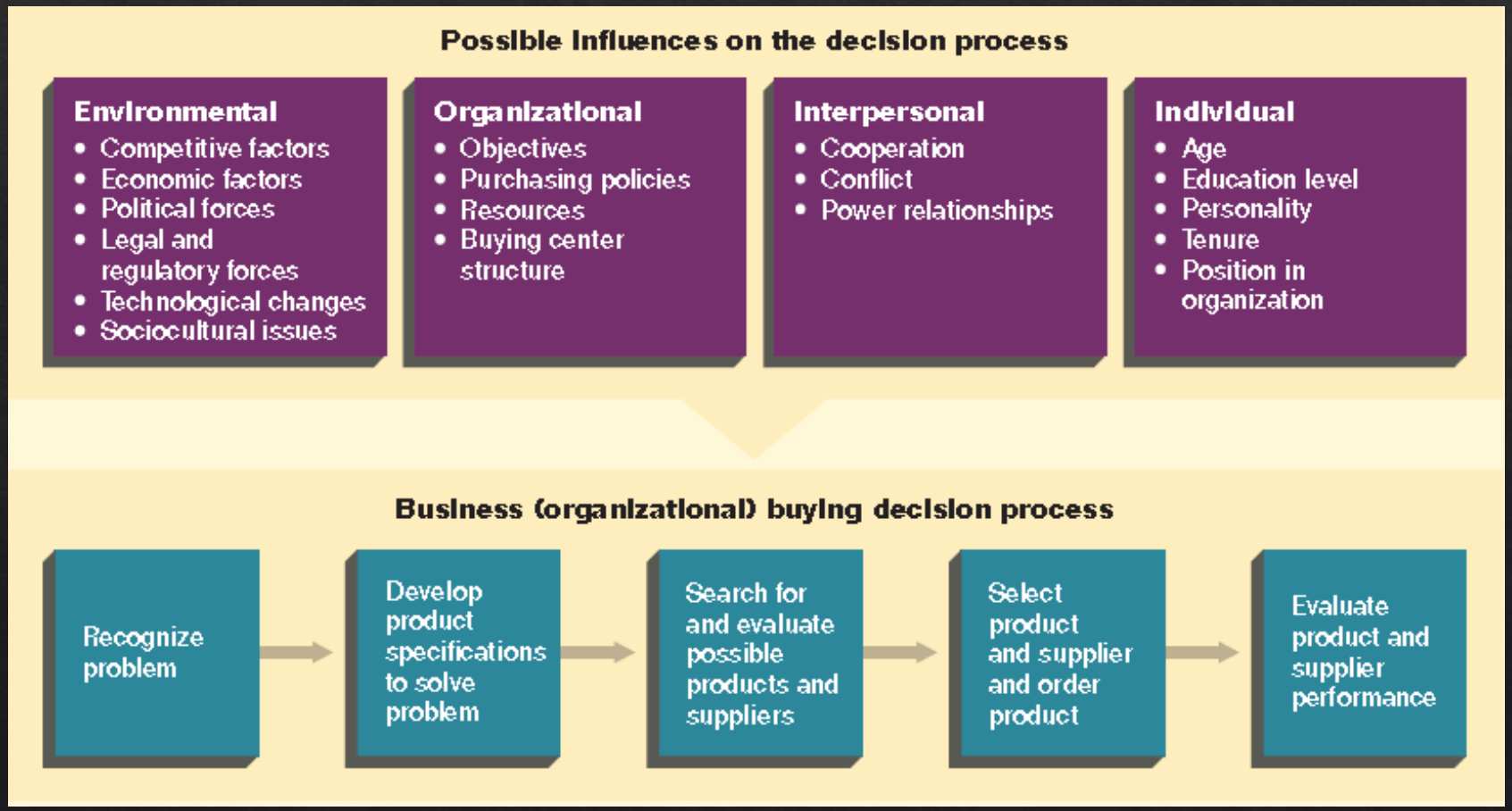
Figure 7.2 – Business (Organizational) Buying Decision Process and Factors that May Influence It



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Searching for and Evaluating Potential Products and Suppliers

- Search activities
  - Looking in company files and trade directories
  - Contacting suppliers for information
  - Soliciting proposals from known vendors
  - Examining online and print publications
- **Value analysis** - evaluation of each component of a potential purchase
- **Vendor analysis** - formal, systematic evaluation of current and potential vendors

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Selecting the Product to be Purchased and the Supplier

- **Multiple sourcing** - organization's decision to use several suppliers
- **Sole sourcing** - only one supplier is selected
- Actual product ordered
- Specific details finalized
  - Credit arrangements
  - Delivery dates and methods
  - Technical assistance

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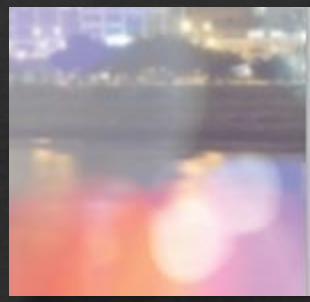
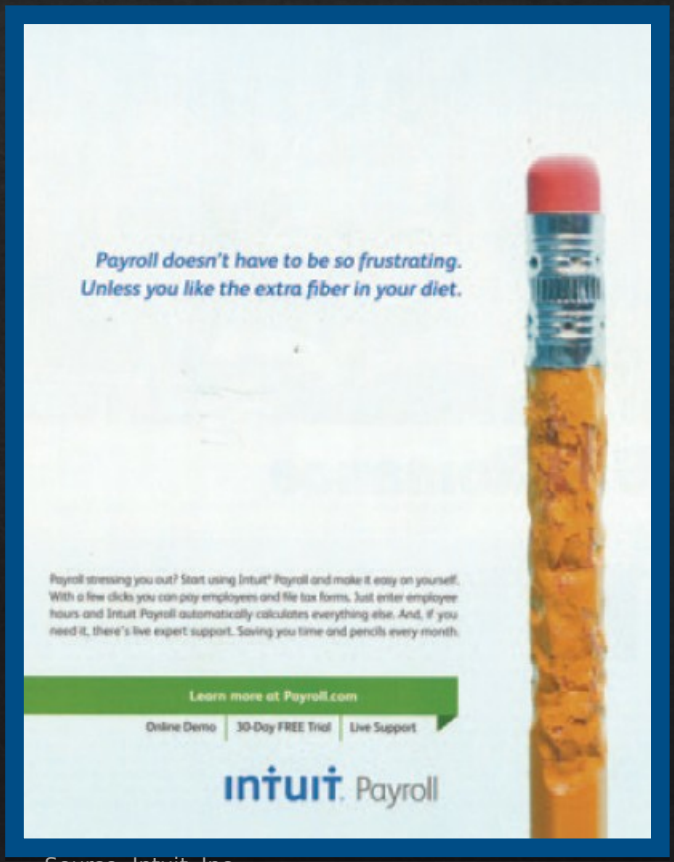
Discussion Point – Sole Sourcing




Payroll doesn't have to be so frustrating.
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Learn more at Payroll.com
Online Demo | 30-Day FREE Trial | Live Support
intuit Payroll

Source: Intuit, Inc.

This advertisement for Intuit points to the problem some firms have with implementing and maintaining a smooth and efficient payroll process. Businesses that outsource payroll processing are likely to use just one vendor.

Why does Intuit gain by offering trial subscriptions for its products and services?

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Evaluating the Performance of Product and Supplier

- The product is evaluated by comparing it with the specifications.
- Specifications must be adjusted if the performance fails to satisfy the need, even if the product specifications are met.
- The supplier's performance is evaluated.
- The business purchaser seeks corrective action from the supplier or searches for a new one if the performance is inadequate.

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Influences on the Business Buying Decision Process

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Environmental Factors

- Include
  - Competitive and economic factors
  - Political forces
  - Legal and regulatory forces
  - Technological changes
  - Sociocultural issues
- Changes in environmental forces can create opportunities and threats that affect purchasing decisions.

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Organizational Factors

- Include
  - Company’s objectives
  - Purchasing policies
  - Resources
  - Size and composition of the buying center
- Special credit arrangements required by an organization’s financial resources might affect purchase decisions.

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Interpersonal Factors

- Relationships among people in the buying center
- Trust and clear communication ensure that all parties are satisfied with the outcome.
- Processes may get complicated within the buying center due to
  - Interpersonal dynamics
  - Varying communication abilities

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Individual Factors

- Personal characteristics of participants in the buying center
  - Age, education level, and personality
  - Tenure
  - Position in the organization
- Depend on
  - Buying situation
  - Type of product
  - Type of purchase

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Promotion

- Promotion targeted to individuals
  - In the buying center
  - Trade shows
- Influence of maintaining strong relationships
  - Personal selling most important influence of trust
  - Social media sites used to develop information and trust

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Industrial Classification Systems

- Marketers historically relied on the Standard Industrial Classification (SIC) system.
- SIC replaced by **North American Industry Classification System (NAICS)** - single industry classification system used by United States, Canada, and Mexico to generate comparable statistics among the three partners of NAFTA

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Advantages of NAICS

- Divides industrial activity into 20 sectors
- 1,1760 industry classifications
- More comprehensive and up to date
- More information about service industries and high-tech products

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Industrial Classification Systems

- Provide a uniform means of categorizing organizations into groups
- Best used in conjunction with other types of data to determine exactly
  - How many customers a marketer can reach
  - Which customers a marketer can reach
- Approaches to determine the identities and locations of organizations in specific groups
  - Use state directories or commercial industrial directories
  - Use commercial data service

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Industrial Classification Systems (continued)

- Useful in estimating the purchase potential
- Problems
  - A few industries do not have specific designations.
  - Double-counting may occur.
  - Data may be understated.
  - A significant lag exists between data-collection and the time when the information is released

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Table 7.2 – Examples of NAICS Classification

NAICS Hierarchy for AT&T Inc.		NAICS Hierarchy for Apple Inc.	
Sector 51	Information	Sector 31–33	Manufacturing
Subsector 517	Telecommunications	Subsector 334	Computer and Electronic Manufacturing
Industry Group 5171	Wired Telecommunication Carriers	Industry Group 3341	Computer and Peripheral Equipment Manufacturing
Industry Group 5172	Wireless Telecommunications Carriers		
Industry 51711	Wired Telecommunication Carriers	Industry 33411	Computer and Peripheral Equipment Manufacturing
Industry 51721	Wireless Telecommunications Carriers		
Industry 517110	Wired Telecommunication Carriers	U.S. Industry 334111	Electronic Computer Manufacturing
Industry 517210	Wireless Telecommunications Carriers		

Source: NAICS Association, www.census.gov/eos/www/naics/ (accessed February 6, 2015).

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